Teachers' Pension Plan

2000 Annual Report

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Teachers' Pension Plan

2000 Annual Report

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MESSAGE FROM THE BOARD

I am pleased to present you with the Teachers' Pension Plan Annual Report for the fiscal year ending December 31, 2000. On behalf of the board, I would like to welcome all new members to the Teachers' Pension Plan.

There are currently approximately 49,000 active plan members and 16,000 retired members. Active plan membership is projected to grow by one per cent per year in the next three years. The number of retired members increased by about 900 during the year and is projected to continue to grow by five per cent per year in the next three years.

The Teachers' Pension Plan is financially sound—net assets grew over six per cent in 2000 to $11.1 billion at December 31, 2000. Every three years an independent actuary assesses the financial health of the plan. At the latest actuarial valuation as at December 31, 1999, the unfunded liability of the Teachers' Pension Fund decreased significantly to $0.5 billion, compared to the unfunded liability in the prior valuation in 1996 of $1.34 billion. The liability also decreased from 66 to 21 per cent of the total payroll upon which contributions are made.

Members' basic pension benefits are guaranteed. Other benefits, such as inflation protection to the basic pension and extended health, dental and Medical Services Plan coverage, are not guaranteed. The board monitors the ability to continue to provide these benefits on an ongoing basis.

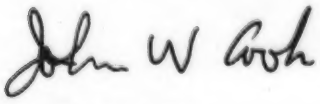
During 2000, representatives of the British Columbia Teachers' Federation (BCTF), British Columbia Principals' and Vice-Principals' Association, British Columbia School Superintendents' Association, B.C. Retired Teachers' Association and the provincial government came to an agreement in committee on changing the governance of the pension plan from government sponsorship to joint trusteeship, with plan members and government having an equal share in the decision-making and in the financing of the plan. As of December 31, 2000, the trust agreement between the provincial government as employer partner and the BCTF as plan member partner was being finalized and still required signature by the two partners and final government approval. [*Note:* joint trusteeship was implemented on April 5, 2001.]

Under joint trusteeship, the Teachers' Pension Board changes from a government advisory board, with the board chair as trustee of the plan, to a full governing board made up of pension plan trustees. The new board of trustees will be made up of representatives appointed by the plan employer and plan member partners. The new structure will simplify, modernize and enhance the governance of the pension plan. For more information, please refer to the booklet distributed during the summer, *Joint Trusteeship of the Teachers' Pension Plan*, or to the Teachers' Pension Plan web site at **pensions.bc.ca**.

The Teachers' Pension Board continues to focus on communication with plan members as one of its highest priorities. See the "Communications" section of this annual report for more details.

In 1999/2000 the Pension Corporation implemented a new computerized Integrated Pension Administration System (IPAS), while readying the corporation's

critical systems for the year 2000. The change to IPAS created some setbacks for the corporation and caused significant backlogs. Notwithstanding this, all new retired members who provided the necessary information received their first payment within one month of their retirement. Additional staff have been trained and assigned to improve the quality and timeliness of service. The board continues to challenge the Pension Corporation to provide high standards of service delivery to all plan contributors and retired members.



John W. Cook, Chair

BOARD AS AT DECEMBER 31, 2000

Chair

John W. Cook

Plan Member Representatives

British Columbia Teachers' Federation

Dale Lauber, Bob Shanks, Bruce Watson

Government Representatives

Joan Axford, Bruce Kennedy, Tom Vincent

THE PLAN AND ITS PARTICIPANTS

The Teachers' Pension Plan is a defined benefit pension plan. Benefits are based on the employee's highest five years of salary, length of service and age at retirement. The plan provides entitlement to a pension benefit after two years of enrolment. The plan also provides survivor and disability benefits.

Membership in the Teachers' Pension Plan is open to all certified teachers, including administrative staff who are certified teachers who are appointed by a board of school trustees in the British Columbia public school system, and to eligible employees of other employers approved by the Teachers' Pension Board. Once an employee elects or qualifies to contribute to the plan, contributions continue as long as the employee remains with the employer, or until the employee has completed 35 years of pensionable service.

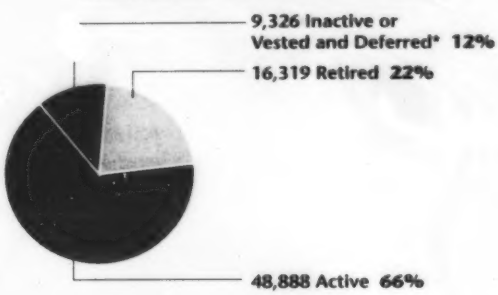
Participating employers are the school districts, the British Columbia College of Teachers, the Teacher Qualification Service (British Columbia), the British Columbia School Superintendents' Association, the British Columbia Principals' and Vice-Principals' Association, the Francophone Education Authority and the British Columbia Teachers' Federation.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Investments as at December 31, 2000

	Performance Benchmarks 2000	2000	1999
Market Value ($ Billions)		$11.1	$10.4
Market Value Rates of Return			
Basic Account			
Annual	5.0%	7.0%	14.4%
Five-year Average	12.6%	12.8%	14.6%
Inflation Account			
Annual		7.2%	14.9%
Five-year Average		12.8%	14.5%

2000 Membership Profile



* MEMBERS NO LONGER EMPLOYED, BUT WITH MONEY IN THE PLAN.

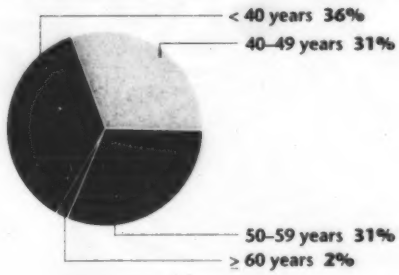
Latest Actuarial Valuation–December 31, 1999

$ Billions

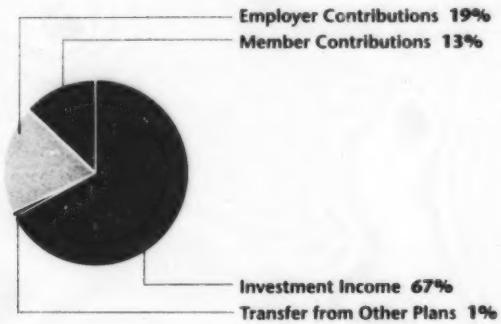
	Basic Pension Benefits Net Unfunded Liability	
	1999	1996
For Funding Purposes (statutory contributions)*	$0.45	$1.34
Ratio of Unfunded Liability to Covered Payroll*	21%	66%
Based on Accrued Benefits to December 31	$0.49	$1.42

* ASSUMING CONTRIBUTIONS CONTINUE AT EXISTING RATES IN EFFECT AT THE VALUATION DATE.

2000 Age Profile of Active Members

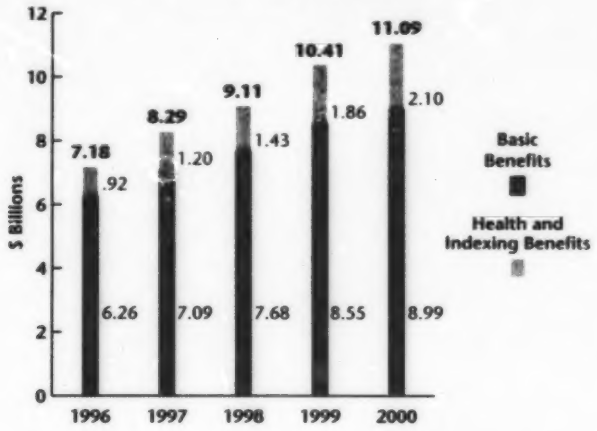


2000 Revenue



Net Assets Available for Benefits

as at December 31, 1996–2000



Five-year Summary Statement of Changes in Net Assets Available for Benefits (unaudited)

$ Thousands					
For the year ended December 31	**2000**	**1999**	**1998**	**1997**	**1996**
Increase in Assets					
Net Investment Income					
Total Investment Income	$ 750,650	$ 1,324,510	$ 804,742	$1,074,963	$1,128,837
Investment Management Costs	(14,992)	(11,881)	(12,236)	(11,625)	(7,600)
	735,658	1,312,629	792,506	1,063,338	1,121,237
Contributions					
Members	140,294	145,989	144,052	144,083	140,518
Employers	205,886	204,396	202,263	199,083	195,263
Province of British Columbia	–	–	9,692	–	–
Transfers from Other Plans	8,613	16,895	11,261	7,367	11,021
Total Increase in Assets	1,090,451	1,679,909	1,159,774	1,413,871	1,468,040
Decrease in Assets					
Pension Benefits	370,044	335,797	301,238	270,853	246,925
Termination Benefits	10,163	12,921	12,971	11,451	8,579
Transfers to Other Plans	7,605	2,936	3,695	3,733	3,909
Retired Member Group Benefits	20,528	18,461	15,727	14,361	11,871
Pension Administration Costs	5,638	5,826	6,345	4,725	3,585
Total Decrease in Assets	413,978	375,941	339,976	305,123	274,869
Increase in Net Assets	676,473	1,303,968	819,798	1,108,748	1,193,171
Net Assets Available for Benefits at Beginning of Year	10,412,479	9,108,511	8,288,713	7,179,965	5,986,794
Net Assets Available for Benefits at End of Year	$11,088,952	$10,412,479	$9,108,511	$8,288,713	$7,179,965
		As a Percentage of Net Assets			
Benefit Administration Costs	0.05%	0.06%	0.07%	0.06%	0.05%
Investment Management Costs	0.14%	0.11%	0.13%	0.14%	0.11%

ROLES AND RESPONSIBILITIES

The Teachers' Pension Board oversees the Teachers' Pension Plan. The board includes representatives from employers and plan members. The chair of the board acts as trustee. Effective April 1, 2000, the *Public Sector Pension Plans Act* came into full force and replaced legislation that previously governed the plan. The new legislation simplifies public sector pension plan administration and management, and provides the mechanism for the negotiation of joint trusteeship for the plan.

British Columbia Pension Corporation

The British Columbia Pension Corporation, which replaced the Superannuation Commission effective April 1, 2000, is responsible for administering pension benefits. The board of directors of the Pension Corporation consists of two members from each of the Teachers', College, Municipal and Public Service pension boards, giving the pension boards a strong voice in the administration of the plans.

British Columbia Investment Management Corporation

The British Columbia Investment Management Corporation (bcIMC), which replaced the Office of the Chief Investment Officer effective January 1, 2000, is responsible for investment management within asset mix policies approved by the trustee. The bcIMC's board also includes representatives from the Teachers', College, Municipal and Public Service pension boards.

INVESTMENTS

Message from the Chief Investment Officer

Review of Markets

The 1990s were an incredible decade economically and for capital markets. The United States had the longest economic expansion in its history. There was significant improvement in fiscal performance as many governments went from running large deficits to budgetary surpluses. At the same time, globalization and productivity improvements led to declining inflation and interest rates.

Falling interest rates and strong economic growth led to strong inflows of capital to equity markets, particularly from retail investors. The net effect was to push stock prices higher and higher. As a result, returns in the 1990s were exceptionally strong. During the decade, in Canadian dollar terms, the Standard & Poor's (S&P) 500 index increased at an annualized rate of 21.0 per cent and the Toronto Stock Exchange (TSE) 300 index increased at an annualized rate of 10.6 per cent. The returns for the five years ending December 31, 1999 were even higher at 29.5 and 17.0 per cent respectively.

The strong economic conditions and returns caused many investors to become enamoured by the "new economy" and technology, media, and telecommunications stocks. As a result, there were large capital inflows to these sectors and fundamental valuation measures (e.g., price/earnings ratios) fell by the wayside.

There are two downsides to this phenomenon. First, it created an asset bubble. Second, it led to a misallocation of capital. For example, telecommunications companies paid billions of dollars in government auctions for G-3 mobile phone licenses.

The prospect of a slowing global economy and the failure of high-tech and telecommunications companies to meet earning expectations led to a significant reversal in 2000. With the exception of Canada, all major stock markets had negative returns last year. Furthermore, the correction is not yet over as equity markets have continued to produce very disappointing returns during the first quarter of 2001.

While short-term returns have been disappointing, corrections are an essential market mechanism for eliminating asset bubbles and the misallocation of capital. As such, the current correction will improve the long-term health of the market.

Pension plans have a long-term investment horizon and, as such, should not be unduly concerned about short-term performance. In addition, the Teachers' Pension Plan has a very diversified portfolio and this reduces its exposure to market corrections. Finally, the British Columbia Investment Management Corporation, and its external managers, took some defensive actions in the summer and fall to reduce the plan's exposure to high-tech/telecommunications companies.

The net effect is that the Teachers' Pension Plan still earned a 7.0 per cent return in 2000, and this was 2 per cent above its market benchmark. On a 10-year basis, the Teachers' Pension Plan has an annualized return of 12.1 per cent. Consequently, despite the recent setback, the plan has posted strong long-term rates of returns.

Doug Pearce
Chief Investment Officer/Chief Executive Officer
British Columbia Investment Management Corporation

Approved Basic Account Investment Asset Mix

as at December 31, 2000

	Market Value	
Asset Class	Lower Limit	Upper Limit
Debt	**25%**	**45%**
Short-term	0%	10%
Bonds	15%	30%
Mortgages	0%	10%
Equity	**55%**	**75%**
Canadian Equities	15%	30%
U.S. Equities	5%	20%
International Equities	10%	25%
Real Estate	5%	12%
Private Placements	0%	6%

Approved Investment Asset Mix

The Teachers' Pension Fund holds a diversified portfolio of debt and equity investments that facilitates prudent management of risk. The plan's net assets grew over six per cent in 2000 to $11.1 billion at December 31, 2000.

Strategic and short-term asset allocation targets are set within the ranges shown below. Short-term, for asset mix purposes, includes government bonds with one- to five-year terms and money market funds.

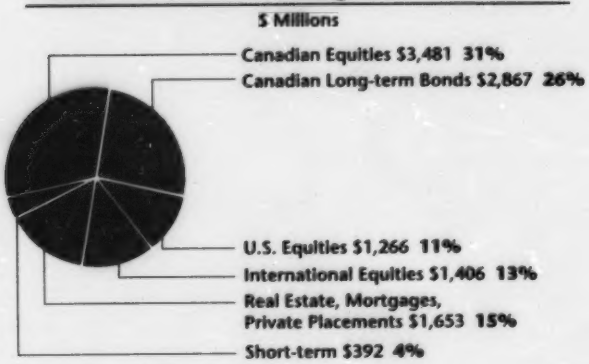
The board approved a new asset allocation policy in June 2000. These changes have caused the portfolio to exceed the maximum range for Canadian equities. The portfolio will be brought into line with the range over the next quarter.

Investment Portfolio

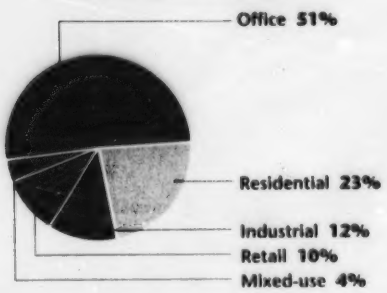
Investments Held as at December 31, 2000

	Market Value	Asset Mix % Market Value
Money Market	$ 156,383,498	2%
Canadian Bonds		
Government	2,179,543,118	
Corporate	318,878,549	
Long-term	166,795,251	
Short-term (1 to 5 years)	235,229,789	26%
Canadian Equities		
Indexed	2,468,895,640	
Actively Managed	1,005,699,548	31%
U.S. Equities		
Indexed	568,538,369	
Actively Managed	697,261,481	11%
International Equities		
Asia	200,183,524	
Europe	763,512,206	
Europe, Australia and the Far East	442,620,537	13%
Real Estate	954,198,267	9%
Mortgages	366,754,874	3%
Private Placements	327,362,646	3%
Total Pooled Portfolios	$10,851,857,297	98%
Canadian Real Return Bonds	202,269,781	
Canadian Equities	6,775,111	
Real Estate	4,822,683	2%
Total Investments	$11,065,724,872	100%
1999 Comparison	$10,395,291,970	

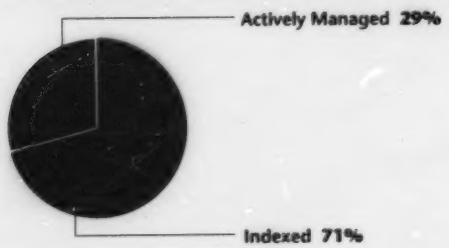
2000 Investment Holdings (Market Value)


$ Millions
Canadian Equities $3,481 31%
Canadian Long-term Bonds $2,867 26%
U.S. Equities $1,266 11%
International Equities $1,406 13%
Real Estate, Mortgages, Private Placements $1,653 15%
Short-term $392 4%

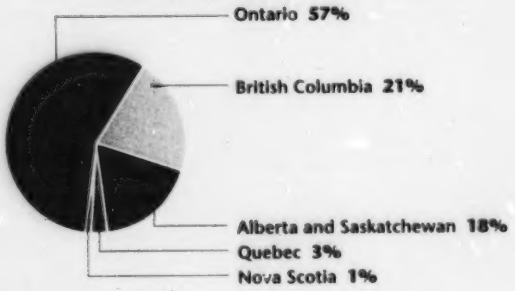
Real Estate, by Type



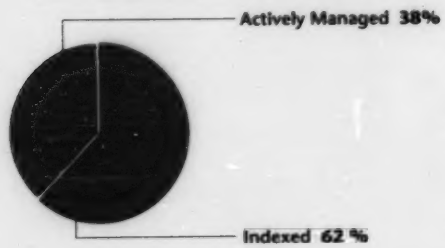
Canadian Equities (Market Value)



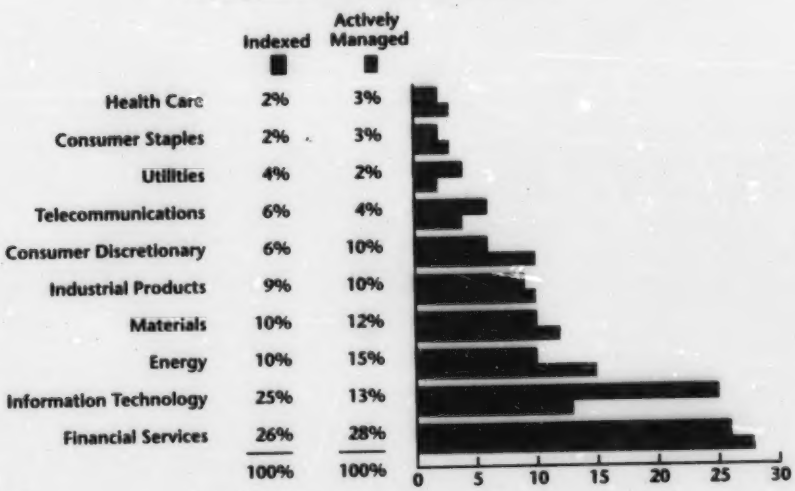
Real Estate, by Location



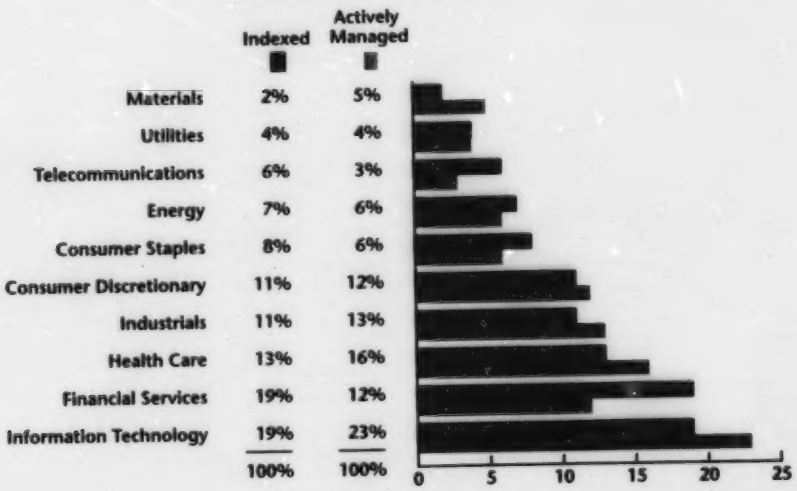
U.S. Equities (Market Value)



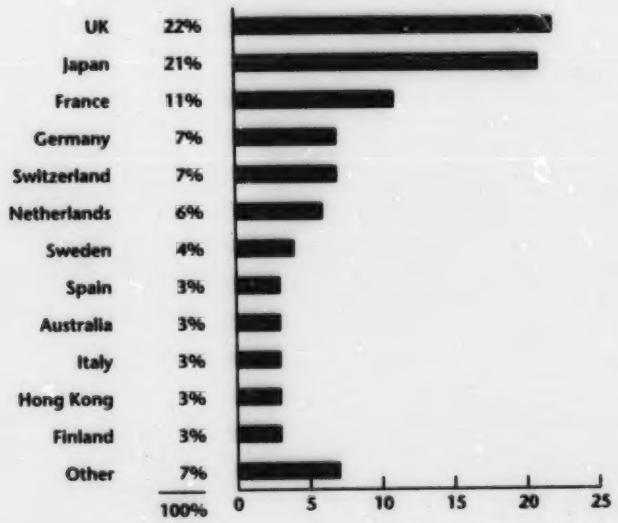
Canadian Equities, by Sector



U.S. Equities, by Sector



International Equities



Investment Performance

Net Earned Rate of the Fund

Year	%
1991	10.3
1992	8.0
1993	7.3
1994*	10.2
1995	11.2
1996	11.7
1997	14.0
1998	11.6
1999	14.6
2000	12.8

* FROM 1994 ONWARD, THE RATES OF RETURN ARE BASED ON A FIVE-YEAR AVERAGE.

Market Value Rates of Return for the Year Ended December 31, 2000

	Basic Account	Inflation Adjustment Account	Basic Account Performance Benchmarks	
Five-year Average Rates				
2000	12.8%	12.8%	12.6%	
1999 Comparison	14.6%	14.5%	14.8%	
Annual Rates				
2000	7.0%	7.2%	5.0%	
1999 Comparison	14.4%	14.9%	15.8%	
2000 Annual Rates by Investment Category			**2000 Performance Benchmark Indices**	
Short-term				
Money Market	5.8%	5.8%	5.5%	SCI 91-Day Treasury Bills
Bonds	8.2%	8.2%	8.2%	SCI Short-term Bonds
Bonds				
Government	10.8%	10.8%	10.6%	SCI Government Universe
Corporate	9.5%	9.5%	9.1%	SCI Corporate Universe
Long-term	13.5%	13.5%	13.7%	RBC DS Gov't LG
Real Return	–	15.6%	16.6%	SCI Real Bond
Canadian Equities				
Actively Managed	18.7%	18.7%	7.4%	TSE 300
Indexed				
TSE 300	8.6%	8.6%	7.4%	TSE 300
TSE 100	8.5%	8.5%	7.6%	TSE 100
U.S. Equities				
Actively Managed	-3.1%	-3.1%	-4.6%	R 1000
Indexed	-5.7%	-5.7%	-5.9%	S&P 500
International Equities				
Asia	-36.0%	-36.0%	-23.2%	MSCI Pacific Basin Net
Europe	-6.9%	-6.9%	-5.2%	MSCI Europe Net
Europe, Australia and the Far East	-10.7%	-10.7%	-11.2%	MSCI EAFE Net
Real Estate	8.4%	8.3%	11.6%	R Canadian Property
Mortgages				
Fixed-term	10.2%	10.2%	9.3%	SCI Short-term Bonds + 1%
Construction	9.3%	9.3%	7.2%	SCI One-year Bill + 1%

Performance Benchmark Indices Abbreviations

SCI	= Scotia Capital Inc.
S&P	= Standard & Poor's
MSCI	= Morgan Stanley Capital International
MSCI EAFE	= Morgan Stanley Capital International Europe, Australia & Far East
R	= Russell
TSE	= Toronto Stock Exchange
RBC DS	= RBC Dominion Securities
RBC DS Gov't LG	= RBC Dominion Securities Long

(SOURCE OF ANNUAL RATES: BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION)

ACTUARIAL VALUATION / PLAN FUNDING

At least every three years, an independent actuary assesses the plan's financial health and the adequacy of the contribution rates for funding the basic account of the pension fund. To assess funding, the valuation considers benefits a member has actually earned to date (accrued benefits), as well as benefits a member is likely to earn for future service.

The most recent actuarial valuation was as at December 31, 1999. The next actuarial valuation will be as at December 31, 2002, and results are anticipated in late 2003.

The plan's funding policy provides for the long-term reduction of the unfunded liability. In the most recent valuation, the plan's unfunded liability had decreased to $0.45 billion from $1.34 billion in the previous valuation in 1996.

A key indication of the plan's relative financial health is the unfunded liability as a percentage of the membership payroll covered by the plan. Over the last three valuations, the unfunded liability decreased as a percentage of covered payroll, and in 1999 it shrank to 21 per cent of payroll from 66 per cent in 1996. The indicator will be examined again as at December 31, 2002.

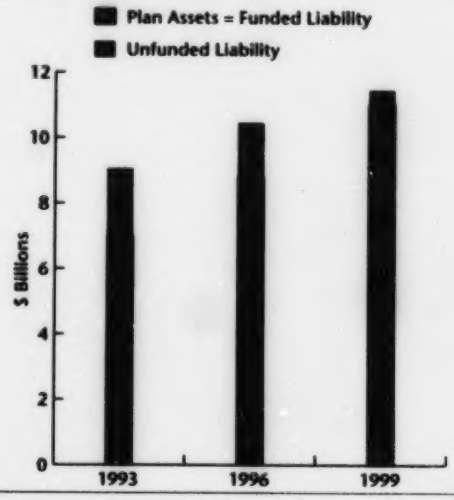
Latest Actuarial Valuation – December 31, 1999
Basic Pension Benefits

$ Billions

	Basic Pension Benefits Net Unfunded Liability		
	1999	1996	1993
For Funding Purposes (statutory contributions)*	$0.45	$1.34	$1.72
Ratio of Surplus (Unfunded) Liability to Covered Payroll*	21%	66%	92%
Based on Accrued Benefits to December 31	$0.49	$1.42	$1.78

* ASSUMING CONTRIBUTIONS CONTINUE AT STATUTORY RATES IN EFFECT AT THE VALUATION DATE

Total Basic Benefit Liability for Funding Purposes



MEMBER SERVICES

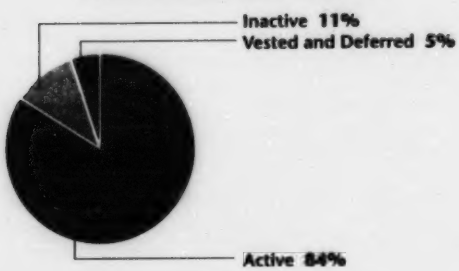
Members and Contributions

The number of active plan members in the Teachers' Pension Plan has increased by about three per cent in 2000. Today there are approximately 49,000 active plan members and over 58,000 total members.

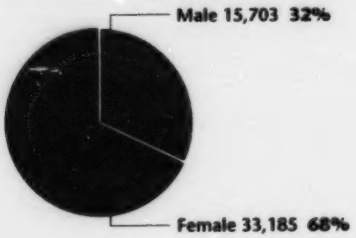
Although member and employer regular contributions increased, total contributions decreased to $346 million in 2000 from $350 million in 1999. This decrease was primarily due to a significant decrease in purchases processed.

- Active members are currently contributing plan members, receiving benefits from an approved salary continuance plan or are on a leave of absence. (In the historical numbers of active and inactive members, the number of active members now includes those on leaves of absence.)
- Vested and deferred members have terminated their employment and are eligible for a pension.
- Inactive members have terminated their employment with contribution balances on record but are not eligible for a pension in the future.

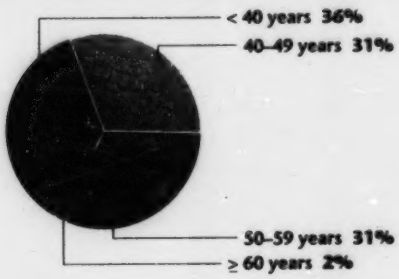
2000 Member Profile



2000 Active Member Profile



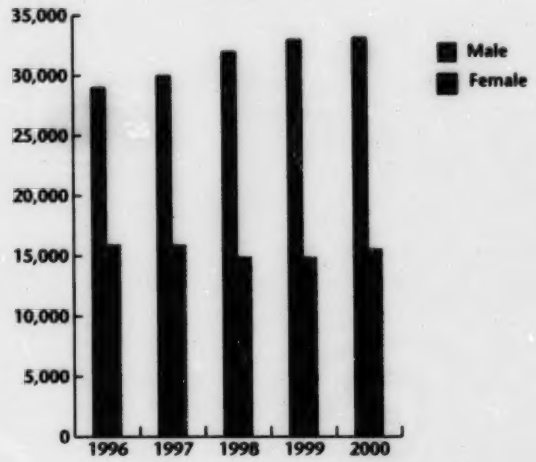
2000 Age Profile of Active Members



Number of Members

	Active	Inactive	Vested and Deferred	Total
1996	45,387	11,623	1,016	58,036
1997	46,510	11,288	1,019	58,817
1998	46,986	11,239	966	59,191
1999	47,412	8,142	2,667	58,221
2000	48,888	6,492	2,834	58,214

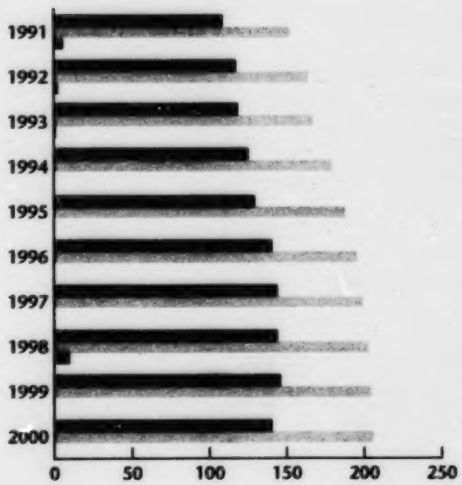
Active Members



Contributions

$ Millions

Member	Employer	Early Retirement Funding From the Province
$108.72	$152.40	$5.81
117.43	164.25	2.55
118.61	167.07	0.90
125.32	179.47	–
129.60	187.81	–
140.52	195.26	–
144.08	199.08	–
144.05	202.26	9.69
145.99	204.40	–
$140.29	$205.89	–



Termination Benefits

A terminating member may be eligible for one or more of the following benefits:

- a refund of contributions with interest
- a transfer of the commuted value of the pension benefit to a locked-in registered retirement savings plan or a registered pension plan, or
- a deferred pension.

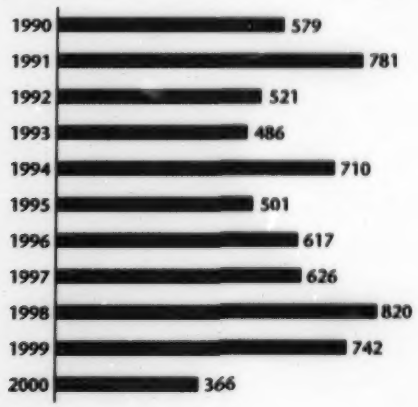
The number of termination benefits paid can vary from year to year, depending on the employment environment. There have been significant fluctuations over the last 10 years. The numbers of termination benefits paid in 1991, 1994, 1998 and 1999 were relatively high.

The number of termination benefits paid in 2000 decreased 51 per cent from 1999, whereas the value of benefits paid decreased by only 21 per cent (2.7 million). Since 1993, the value of a termination benefit has increased significantly with the introduction of the commuted value payment, which allows members to transfer the commuted value of their pension to a locked-in registered retirement savings plan or equivalent vehicle. Typically, commuted values, which represent the net present value of a future pension entitlement, are significantly higher in dollar value than a member's personal accumulated contributions.

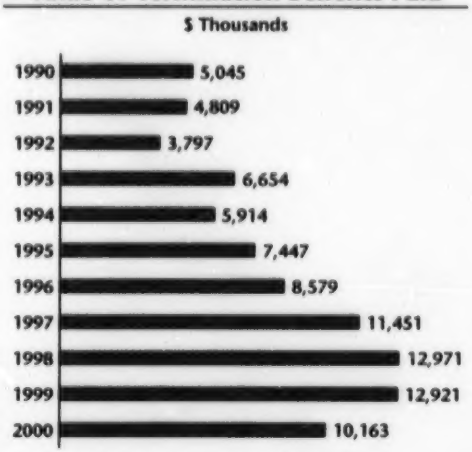
If a member leaves the plan and is eligible for a refund of contributions, the refund includes interest. Interest compounds annually and is credited to the member's contribution balance. The balance, including interest, is included in the annual *Member's Benefit Statement*.

The rate of interest is governed by pension standards and pension plan legislation and is based on average five-year bank personal term deposit rates.

Number Of Termination Benefits Paid



Value Of Termination Benefits Paid



TERMINATION BENEFITS PAID INCLUDE ONLY REFUNDS OF CONTRIBUTIONS AND COMMUTED VALUE PAYMENTS; DEFERRED PENSIONS ARE INCLUDED IN PENSION STATISTICS.

Annual Rates for Interest Credited to Contribution Balances

1991	7.50%	1995	6.88%	1999	4.56%
1992	6.00%	1996	5.47%	2000	5.28%
1993	5.45%	1997	4.54%		
1994	6.49%	1998	4.30%		

Pensions

The number of pensioners continues to grow. The number of pensions granted in 2000 decreased 50 per cent from the number granted in 1999 because of the early incentive retirement package made available in 1999. The number of pensioners on payroll increased three per cent.

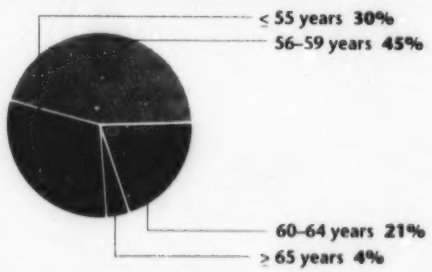
Pensions are paid at the end of each month, beginning with whichever of the following comes latest:

- the month following the month in which the plan member becomes eligible
- the month following the month in which the plan member receives the final salary, or
- the month in which the Pension Corporation receives the member's application.

The plan pays a full month's pension for the month in which a pensioner dies.

Basic pensions have a significant value. The value of a basic pension depends on a number of factors, including the member's age, salary and years of service at retirement. The accompanying table shows the average asset value ("present value") of pensions granted during 2000. The value represents approximately how much it would cost to purchase an average basic pension (including partial indexing) provided under the Teachers' Pension Plan.

Percentage of 2000 Normal Pensions Granted by Age



Value of Normal Pensions Granted January 1, 2000 to December 31, 2000

Subdivided by Years of Service

Years of Service*	Number of Pensions Granted	Average Annual Salary Base	Average Annual Pension (Single Life Option)	Average Present Value of Pensions	Total Present Value of Pensions ($ Millions)
< 10 years	22	$37,000	$ 5,000	$ 59,000	$ 1.3
10–14	61	44,000	10,000	130,000	7.9
15–19	56	53,000	15,000	206,000	11.5
20–24	95	59,000	21,000	293,000	27.8
25–29	106	62,000	27,000	376,000	39.9
30–34	297	68,000	35,000	515,000	153.0
≥ 35 years	80	69,000	39,000	571,000	45.7
Total	717	n/a	n/a	n/a	$287.1
All Pension Average	n/a	$62,000	$28,000	$400,000	n/a

* YEARS OF SERVICE INCLUDES SERVICE TRANSFERRED FROM OTHER PLANS.

Pensions 1991–2000

	Granted during Year	Pension Terminations	In Force at End of Year	Basic Pensions Paid ($ Millions)	Inflation Supplements Paid ($ Millions)	Total ($ Millions)
1991	421	160	9,811	$127.1	$42.7	$169.8
1992	506	181	10,136	133.4	49.7	183.1
1993	503	201	10,438	140.5	50.9	191.4
1994	668	228	10,878	150.1	52.9	203.0
1995	1,050	207	11,721	170.3	51.9	222.2
1996	970	228	12,463	192.0	54.9	246.9
1997	1,048	201	13,310	214.2	56.7	270.9
1998	1,370	291	14,389	242.2	58.8	301.2
1999	1,673	262	15,800	277.4	58.4	335.8
2000	816	291	16,325	305.8	64.2	370.0

Pensions Granted, by Type 1991–2000

	Normal*	Death*	Disability	LTD+	Deferred	Total
1991	306	17	9	24	65	421
1992	369	33	11	27	66	506
1993	369	17	15	28	74	503
1994	540	15	13	30	70	668
1995	883	18	5	56	88	1,050
1996	787	13	9	60	101	970
1997	896	14	5	52	81	1,048
1998	1,207	19	5	54	85	1,370
1999	1,494	9	3	83	84	1,673
2000	717	13	3	67	31	831

* PENSIONS GRANTED DO NOT INCLUDE ANY PENSION CONTINUED TO A BENEFICIARY UPON THE DEATH OF A PENSIONER.

+ LTD PENSIONS ARE FOR THOSE MEMBERS ON LONG-TERM DISABILITY WHO BECAME ELIGIBLE FOR A REGULAR PENSION.

2000 Normal Pensions Granted by Age at Retirement

Subdivided by years of service and age at retirement

Years of Service	55	56–59	60–64	65	Total
< 10 years	3	4	9	6	22
10–14	18	12	24	7	61
15–19	25	16	12	3	56
20–24	34	32	26	3	95
25–29	40	37	24	5	106
30–34	77	182	36	2	297
≥ 35 years	16	44	16	4	80
Total	213	327	147	30	717

Percentage of 2000 Normal Pensions by Years of Service

<10 years	3%
10–14	9%
15–19	7%
20–24	14%
25–29	14%
30–34	42%
35+	11%
	100%

Other

Portability Provisions

Portability allows pension plan members to carry pension rights from one plan to another. For instance, members of the Teachers' Pension Plan may carry their years of pensionable service and contributions to a new plan at a different place of employment if the new plan has a portability agreement with the Teachers' Pension Plan. Employers that allow pension plan members to transfer their pension rights to other pension plans are called "reciprocal employers."

Members of the Teachers' Pension Plan who have made contributions to another pension plan should inquire about portability agreements.

In 2000, there were 140 reciprocal transfers-in from other agencies and 159 transfers-out. The transfers-in totalled approximately $8.6 million; transfers-out totalled approximately $7.6 million. As a result of changes in interplan portability provisions, transfers now include those between the Teachers' Pension Plan and three other BC public sector plans (College, Municipal, and Public Service).

Purchase of Additional Service

It may be possible for plan members to purchase additional service. This service may include:

- approved leaves of absence
- arrears contributions, or
- reinstatement of refunded contributions.

Member and Employer Purchases of Additional Service

	Number of Purchases		Value of Purchases ($ Thousands)	
	2000	1999	2000	1999
Approved Leaves of Absence	543	909	$2,209	$ 3,584
Arrears Contributions	35	63	271	278
Reinstatement of Refunded Contributions	144	638	2,027	7,894
Total	722	1,610	$4,507	$11,756

Communications

The board continues to make communicating with plan members a priority. Recent initiatives include a public web site that the Pension Corporation introduced in 1999. The address of this web site is **pensions.bc.ca**. The corporation also continues to produce *Pensionfacts*, a series of information sheets on various topics, as well as a pensioner newsletter.

PENSION
CORPORATION

Executive Offices

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Stn Prov Govt
Victoria BC
V8W 9V8

Location:
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Victoria BC
V8T 5J9

Phone:
250-387-8201
1-800-663-8823
Fax:
250-387-4199

TEACHERS' PENSION PLAN

ADMINISTRATOR'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Teachers' Pension Plan were prepared by the British Columbia Pension Corporation, the benefit administrator for the plan. The corporation is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Annual Report for the plan conforms to these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the plan. The role of the actuary is to complete an actuarial valuation of the plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The Auditor General of British Columbia has performed an independent audit of the financial statements of the plan in accordance with generally accepted auditing standards. The resulting audit opinion is set out in the Report of the Auditor General attached to these financial statements.

JOHN A. MOCHRIE
Chief Executive Officer
British Columbia Pension Corporation

P. LOUISE YOUNG, C.A.,
Vice-President, Information Management,
Finance and Administration
British Columbia Pension Corporation

May 10, 2001

Report of the Auditor General of British Columbia

To the Members of the Teachers' Pension Board, and

To the Minister of Finance,
Province of British Columbia:

I have audited the statement of net assets available for benefits of the *Teachers' Pension Plan* as at December 31, 2000 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the British Columbia Pension Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Teachers' Pension Plan* as at December 31, 2000 and the results of its operations and changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff, CA
Auditor General

Victoria, British Columbia
May 10, 2001, except as to the
extrapolations of the December 1999
valuation referred to in notes 7 and 8
which are as of November 2, 2001

TEACHERS' PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

December 31	2000	1999
ASSETS		
Investments (Note 3)	$ 11,065,725	$ 10,395,292
Receivables		
Members' contributions	11,723	6,475
Employers' contributions	17,333	9,199
Accrued investment income	822	699
Due from sale of investments	5,093	-
Other	2	81
	34,973	16,454
Prepaid expense	932	1,128
Cash	2,325	10,924
Total Assets	11,103,955	10,423,798
LIABILITIES		
Payable for purchase of investments	7,300	-
Accounts payable and accrued expenses	7,703	11,319
Total Liabilities	15,003	11,319
NET ASSETS AVAILABLE FOR BENEFITS	$ 11,088,952	$ 10,412,479

Obligations for Accrued Pension Benefits for Accounting Purposes (Note 7)

The 12 accompanying notes are an integral part of these financial statements.

John W Cook

John W. Cook, F.C.I.A.,
Chair, Teachers' Pension Board,
Trustee

TEACHERS' PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Thousands)

For the year ended December 31	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2000	Totals 1999
INCREASE IN ASSETS					
Net investment income (Note 4)	$ 622,288	$ 113,370	$ -	$ 735,658	$ 1,312,629
Contributions (Note 5)					
Members'	118,550	21,744	-	140,294	145,989
Employers'	181,287	3,976	20,623	205,886	204,396
	299,837	25,720	20,623	346,180	350,385
Transfers from other plans	7,165	1,448	-	8,613	16,895
Total Increase in Assets	929,290	140,538	20,623	1,090,451	1,679,909
DECREASE IN ASSETS					
Pension benefits paid					
Contributory	305,789	-	33	305,822	277,353
Indexing supplements	64,222	-	-	64,222	58,444
	370,011	-	33	370,044	335,797
Termination benefits	8,557	1,606	-	10,163	12,921
Transfers to other plans	6,634	971	-	7,605	2,936
Retired member group benefits	-	-	20,528	20,528	18,461
Administration costs (Note 9)	5,576	-	62	5,638	5,826
Total Decrease in Assets	390,778	2,577	20,623	413,978	375,941
INCREASE IN NET ASSETS BEFORE TRANSFERS	538,512	137,961	-	676,473	1,303,968
Account transfers (Note 6)	(99,899)	99,899	-	-	-
INCREASE IN NET ASSETS	438,613	237,860	-	676,473	1,303,968
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	8,552,869	1,859,610	-	10,412,479	9,108,511
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$8,991,482	$2,097,470	$ -	$11,088,952	$10,412,479

Supplemental Benefits Account (Note 10)

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN

The *Public Sector Pension Plans Act* was passed by the BC legislature on July 15, 1999. Effective April 1, 2000, the existing *Pension (Teachers') Act* and related regulations, which had previously governed the pension plan, were repealed and the Teachers' Pension Plan became governed by Schedule D of the new act. The new act allowed for named partners (the provincial government and the BC Teachers' Federation) to negotiate and enter into a Joint Trust Agreement. Effective April 5, 2001, a Joint Trust Agreement was implemented and now governs the pension plan. As a result, Part 1 of Schedule D of the act and regulations related to the schedule were repealed. See Note 12 for more information regarding the Joint Trust Agreement.

a) General

The plan is a contributory defined benefit pension plan open to all certified teachers, including administrative staff who are certified teachers who are appointed by a board of school trustees in the British Columbia public school system.

b) Roles and Responsibilities

During the year ended December 31, 2000, the Teachers' Pension Board oversaw the administration of the pension plan and the chair of the board acted as trustee. Effective April 5, 2001, with the new Joint Trust Agreement, the plan became governed by a new board of trustees, representing plan members and employers and with full responsibility for the management of the pension plan.

Effective January 1, 2000, the Office of the Chief Investment Officer was replaced by the British Columbia Investment Management Corporation (bcIMC). The bcIMC provides investment management services within investment policies approved by the pension board.

Effective April 1, 2000, the Superannuation Commission was replaced by the British Columbia Pension Corporation (Pension Corporation) as the provider of benefit administrative services to the pension plan.

c) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (continued)

c) Pension Benefits (continued)

Members are eligible for unreduced pension benefits:

- at age 65;
- at age 60, with at least 2 years contributory service; or
- at age 55 or older, with age plus years of service equalling 90 or more.

Other retiring members have a reduction formula applied to their pensions.

The plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the plan provides an unreduced benefit of 1.3% of pensionable earnings, up to the CPP Year's Maximum Pensionable Earnings (YMPE) and 2% of pensionable earnings over the YMPE, for each year of pensionable service (to a maximum of 35 years). Pensionable earnings is based on the member's highest five-year average salary (HAS). The plan also provides a bridging benefit with CPP which is payable to age 65 (or the date of death, if earlier). The bridging benefit is 0.7% of the lesser of YMPE or the HAS, for each year of the member's pensionable service since January 1, 1966 when CPP was introduced.

Increases to pension payments are provided each January 1 in accordance with the indexing provisions of the plan. These increases are based on the annual increase in the Consumer Price Index (CPI) as at the previous September 30, and are subject to availability of funds in the Inflation Adjustment Account (Note 6).

At January 1, 2000, retired members received a full CPI increase of 2.6% (1999 – 0.7%); at January 1, 2001, retired members will receive a full CPI increase of 2.7%.

d) Termination Benefits and Reciprocal Arrangements

A terminating member who has not reached the earliest age at which the member would be eligible to receive an immediate pension is eligible to receive:

- a deferred pension; or
- a refund of contribution with interest;
- a transfer of the commuted value of the pension benefit (the minimum value is the members' contributions with interest) to a locked-in or similar tax-sheltered plan.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (continued)

d) Termination Benefits and Reciprocal Arrangements (continued)

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements. Where there are portability arrangements between the Teachers' Pension Plan and other plans, members may be able to carry certain pension rights to those other plans, or transfer contributions and service from those other plans to increase pension benefits under the Teachers' Pension Plan.

e) Other Benefits

Supplemental (Note 10), disability and survivor benefits are also available under the plan. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

f) Income Taxes

The plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act (Canada)* and is not subject to income taxes, except for any supplemental benefits (Note 10) which are funded in addition to the RPP.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements present the aggregate financial position of the plan as a separate financial reporting entity, independent of the plan's contributing employers and members.

b) Investments

Investments are stated at market value. Market value is derived from external quotations or appraisals. Investment purchases and sales are recorded on trade date.

c) Investment Income

Investment income is recorded on the accrual basis.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

3. INVESTMENTS (Market Value)

	2000			1999
	Basic Account	Inflation Adjustment Account	Total	Total
			($ Thousands)	
Short-term	$ 116,340	$ 40,043	$ 156,383	$ 69,913
Canadian Bonds	2,508,655	594,062	3,102,717	2,803,779
Canadian Equities	2,892,970	588,400	3,481,370	3,985,108
U.S. Equities	1,042,369	223,431	1,265,800	1,155,288
International Equities	1,165,414	240,902	1,406,316	1,130,541
Mortgages	305,308	61,447	366,755	355,884
Real Estate	790,500	168,521	959,021	709,461
Private Placements	327,363	-	327,363	185,318
	$9,148,919	$1,916,806	$11,065,725	$10,395,292

Pension plan investments consist primarily of direct ownership in units of pooled investment portfolios, managed by the British Columbia Investment Management Corporation. Each unit gives its holder a proportionate share in the net assets of the pooled fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian money market securities, such as treasury bills, with terms of 15 months or less. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and in the case of international equities refer to investments in Europe, Australia and the Far East. Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of Canadian diversified income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside the structure of public markets (Note 11).

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

4. INVESTMENT INCOME

	2000			1999
	Income Allocation	Current Period Change in Market Value	Total	Total
			($ Thousands)	
Basic Account				
Short-term	$ 10,338	$ 561	$ 10,899	$ 3,624
Canadian Bonds	144,586	95,727	240,313	(25,615)
Canadian Equities	47,688	394,980	442,668	735,557
U.S. Equities	14,861	(57,626)	(42,765)	124,839
International Equities	16,149	(173,671)	(157,522)	208,924
Mortgages	22,356	9,716	32,072	14,091
Real Estate	33,698	27,988	61,686	54,319
Private Placements	1,267	46,234	47,501	(3,252)
	$290,943	$ 343,909	$634,852	$1,112,487
Investment Management Costs			(12,564)	(10,205)
Net Investment Income			$622,288	$1,102,282
Inflation Adjustment Account				
Short-term	$ 1,890	$ 27	$ 1,917	$ 1,331
Canadian Bonds	32,665	27,408	60,073	3,895
Canadian Equities	9,474	67,768	77,242	137,080
U.S. Equities	2,987	(13,647)	(10,660)	22,222
International Equities	3,173	(34,601)	(31,428)	35,483
Mortgages	4,396	1,339	5,735	2,263
Real Estate	7,215	5,704	12,919	9,749
	$ 61,800	$ 53,998	$115,798	$ 212,023
Investment Management Costs			(2,428)	(1,676)
Net Investment Income			$113,370	$ 210,347
Total Basic and Inflation Adjustment Accounts				
Total Investment Income			$750,650	$1,324,510
Total Investment Management Costs			(14,992)	(11,881)
Total Net Investment Income			$735,658	$1,312,629

The income allocation portion of investment income represents pooled investment portfolio income attributable to the pension fund, as a unitholder, and as calculated by the British Columbia Investment Management Corporation, as well as interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

5. CONTRIBUTIONS

	2000				1999
	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
				($ Thousands)	
Members' contributions					
Regular	$115,519	$21,532	$ -	$137,051	$136,149
Arrears	97	14	-	111	129
Leave of absence	960	145	-	1,105	1,817
Refund reinstatement	1,974	53	-	2,027	7,894
	118,550	21,744	-	140,294	145,989
Employers' contributions					
Regular	180,181	3,818	-	183,999	183,931
Arrears	144	16	-	160	149
Leave of absence	962	142	-	1,104	1,767
Supplemental benefits	-	-	20,623	20,623	18,549
	181,287	3,976	20,623	205,886	204,396
Total Contributions	$299,837	$25,720	$20,623	$346,180	$350,385

Employer regular Inflation Adjustment Account contributions were $24,441 of which $20,623 was allocated to the Supplemental Benefits Account.

6. ACCOUNT TRANSFERS

	2000		1999	
	Basic Account	Inflation Adjustment Account	Basic Account	Inflation Adjustment Account
		($ Thousands)		
Present value of current indexing supplements	$ 77,465	$(77,465)	$ 18,615	$ (18,615)
Indexing of deferred pensions	231	(231)	1,630	(1,630)
Excess interest	(177,595)	177,595	(213,741)	213,741
	$ (99,899)	$ 99,899	$(193,496)	$193,496

A separate account is maintained for funding current and future indexing supplements. This Inflation Adjustment Account is funded through a portion of ongoing contributions from employers and members (Note 8), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

TEACHERS' PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

6. ACCOUNT TRANSFERS (continued)

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the Inflation Adjustment Account to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the Inflation Adjustment Account to the Basic Account.

Excess interest is based only on investment income earned on those Basic Account assets required for pensions currently being paid (approximately $3.3 billion of assets for 2000; $3.0 billion for 1999). The excess interest rate of return is determined by taking the difference between the actual market rate of return and the rate of return used by the actuary (7.5%) in valuing the plan's liabilities. The actual rate of return is based on a five-year average. The calculated excess interest rate of return for 2000 was 5.3% (1999 – 7.1%). Should the excess interest rate calculation ever result in a negative return, the negative return will be carried forward and offset against future excess returns.

7. OBLIGATIONS FOR ACCRUED PENSION BENEFITS FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years and its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the pension fund as described in Note 8(b). As part of the actuarial valuation the actuary calculates values, for accounting purposes, for Basic Account assets as at, and pension liabilities accrued to, the financial statement date.

The Basic Account is the account from which the defined guaranteed basic benefits of the plan are paid and from which any indexing that has been granted to retired members, is also paid. Indexing benefits are not guaranteed within the plan provisions and are granted to retired members only to the extent that sufficient money is available from the Inflation Adjustment Account (IAA) to fund those benefits. As indexing is granted, the Basic Account receives from the IAA the necessary net present value funding for the granted indexing. Therefore accrued basic pension benefits, for valuation purposes, include the liability for all indexing granted to the date of the valuation, but not, as yet unknown, future indexing.

The latest full valuation was made as at December 31, 1999 by Eckler Partners Ltd. Net actuarial assets in the Basic Account as at that date were $7.5 billion (1996 - $5.4 billion). Liabilities for accrued basic pension benefits were $8 billion

TEACHERS' PENSION PLAN
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7. OBLIGATIONS FOR ACCRUED PENSION BENEFITS FOR ACCOUNTING PURPOSES (continued)

(1996 - $6.8 billion). As a result, on an accrued benefits basis, there was a Basic Account deficiency of $0.5 billion (1996 - $1.4 billion). The next full actuarial valuation will be at December 31, 2002 for inclusion in the December 31, 2003 financial statements.

The present value of liabilities for pension benefits accrued to the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. Actuarial liabilities and net assets reflect the following 1999 long-term actuarial assumptions:

- annual investment return 7.5%
- annual salary escalation rate 5.0%

In accordance with the Joint Trust Agreement (see Note 12), an interim extrapolation of the December 1999 valuation results was performed subsequent to December 31, 2000, to bring the results forward to December 31, 2000, using the same long-term actuarial assumptions, but also:

- updating actual asset values to December 31, 2000
- adjusting liabilities and payrolls for actual general salary increases in the one-year period since the valuation

On that basis the extrapolated deficit on an accrued benefit basis to December 31, 2000 is $90 million.

However, extrapolations are not reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the Inflation Adjustment Account, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

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8. FUNDING (See Note 12 for changes subsequent to December 31, 2000)

a) Contributions

Basic Account

During the year, members contributed to the Basic Account 5.0% of salaries up to the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($37,600 in 2000) and 6.5% of salaries above that.

During the year, employers contributed to the Basic Account 8.0% of salaries up to the YMPE and 9.5% of salaries above that, less amounts allocated to the Supplemental Benefits Account.

Inflation Adjustment Account and Supplemental Benefits Account

During the year, members contributed 1.0% of salaries to the Inflation Adjustment Account and employers contributed 1.13% of salaries to the Inflation Adjustment Account, less amounts allocated to the Supplemental Benefits Account to fund retired member group benefits.

b) Actuarial Valuation for Basic Account Funding Purposes

An actuarial valuation of the plan's assets and pension obligations is performed at least every three years to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the plan actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service. The actuary's calculated contribution rate was based on a level contribution method.

The most recent full actuarial valuation for funding purposes was prepared as at December 31, 1999. This valuation disclosed an unfunded liability for basic pension benefits of $0.5 billion (1996 - $1.3 billion), assuming future contributions at the rates in effect at the valuation date.

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8. FUNDING (continued)

b) Actuarial Valuation for Basic Account Funding Purposes (continued)

The main changes between the 1996 and 1999 valuations are as follows:

	($ Billions)
Unfunded actuarial liability as at December 31, 1996	1.34
Interest on unfunded liability	0.33
Investment income in excess of actuarial rate of return	(0.69)
Salary increases less than previously assumed	(0.61)
Statutory contributions greater than normal cost	(0.09)
Changes in benefits and assumptions	0.09
Other	0.08
Unfunded liability at December 1999	0.45

As a result of this valuation, the actuary's calculated contribution rate for basic pension benefits was 15.5% of employer payroll for salaries above the YMPE.

The following table shows a key indicator of the financial health of a pension plan, the Basic Account surplus or unfunded actuarial liability (UAL) as a percentage of payroll, for the three most recent actuarial valuations. (Values shown in the table assume future contributions at the rates in place at the time, rather than the actuary's calculated rates.)

Actuarial Valuation Date	Actuarial Value of Basic Account Assets (a)	Basic Account Actuarial Liability (b)	Basic Account UAL (c)	Covered Payroll (d)	UAL as a Percentage of Payroll (c/d)
	($ Billions)				
1993	7.07	8.79	1.72	1.87	92%
1996	8.77	10.11	1.34	2.03	66%
1999	11.03	11.48	0.45	2.16	21%

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8. FUNDING (continued)

b) Actuarial Valuation for Basic Account Funding Purposes (continued)

In accordance with the Joint Trust Agreement (see Note 12), an interim extrapolation of the December 1999 valuation results was performed subsequent to December 31, 2000, to bring the results forward to December 31, 2000, using the long-term actuarial assumptions, but also:

- updating actual asset values to December 31, 2000
- adjusting liabilities and payrolls for actual general salary increases in the one-year period since the valuation
- reflecting the increase to employer Basic Account contribution rates effective in 2001 (see Note 12).

On that basis, the extrapolated results, on a funding basis, to December 31, 2000 indicate a $216 million surplus.

c) Funding Policy

Basic Account

For the year ended December 31, 2000, the level contribution method was the funding policy for the plan. This policy called for any increases in the UAL as a percentage of employer payroll to be amortized, by way of an increase in employer contributions, over not more than 15 years. However, on a transitional basis, no increase in employer contributions was to occur, as long as the plan's financial experience remained the same or continued to improve from one valuation to the next, based on the UAL as a percentage of employer payroll. (As the table in Note 8(b) indicates, the plan's financial experience has continued to improve on this basis.) With the subsequent implementation of the Joint Trust Agreement effective April 5, 2001, the funding policy for the Basic Account was changed (see Note 12).

Inflation Adjustment Account

No unfunded liability exists for the Inflation Adjustment Account, since the obligation for future indexing benefits is limited to the amount of the available assets in the account. As indexing is granted to retired members full funding for that granted indexing, on a net present value basis, is transferred from the Inflation Adjustment Account to the Basic Account, from which the pensions are paid. There is no minimum level of indexing required to be paid under the plan rules, nor is there any legislative or plan provision or intention to fund the Inflation Adjustment Account to any minimum level of future potential indexing.

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8. FUNDING (continued)

c) Funding Policy (continued)

Inflation Adjustment Account (continued)

The Teachers' Pension Board monitors the performance of the Inflation Adjustment Account and, at least annually, reviews the projected impact on the account of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investments rates of return and group health benefits costs. This sensitivity analysis assists the board to assess, some years in advance of its possible occurrence, the point at which the Inflation Adjustment Account assets may cease to grow and beyond that, the point at which full indexing benefits may not be able to be granted. As long as there are contributions to the Inflation Adjustment Account, there will be some measure of indexing protection for retired members.

Sensitivity analysis, while useful, is future-oriented and therefore is significantly constrained by the uncertainty that the future holds. The analysis is always limited by the fact it is based on assumptions that may vary significantly from actual future economic trends.

A sensitivity analysis for the Inflation Adjustment Account was updated for December 31, 2000 financial results and the subsequent future funding changes arising from the Joint Trust Agreement explained in Note 12. The sensitivity analysis was based on key sensitivity measures and ranges of assumptions including:

- future inflation rates ranging from 1% to 8%
- future long-term real wage growth ranging from 0% to 2%
- future real investment returns from 3.5% to 4.5%
- future long-term contributor growth rate from 0% to 2%
- future real increase in retired member extended health costs from 2.5% to 11.5%
- up to 100% of employer contributions, that would otherwise be paid into the Inflation Adjustment Account, can be used to fund retired member dental, extended health and medical plan costs. (Sensitivity analysis projects that such costs could result in no employer contributions to the Account as early as the next year or so and the board is currently considering actions required to control the costs of these group benefits.)

In all the sensitivity models reviewed, the Inflation Adjustment Account assets were projected to continue to grow for at least 20 years.

TEACHERS' PENSION PLAN
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9. RELATED PARTY TRANSACTIONS

a) Administration Costs

Administration costs include general benefit administration costs, actuarial fees and pension board expenses. General administration costs incurred by the British Columbia Pension Corporation are prorated and charged to each pension plan under its administration based primarily on the relative numbers of members in each plan.

b) Investment Management Costs

The British Columbia Investment Management Corporation manages investments on behalf of the plan trustees and uses internal and external investment managers for this purpose. Total investment management fees for 2000 were $14.99 million (1999 - $11.88 million).

10. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act (Canada)* limits for registered pension plans are paid through this account. Certain group benefit coverage may also be provided to retired members through the account. There is no amount included in the Obligation for Accrued Benefits (Note 7) relating to retired member group benefit plans. There may be an obligation to some retired members for certain group benefits. However, the existence of such an obligation has not been established and, if it exists, it cannot be estimated at this time. It is projected that the cost of the group benefit coverage, based on the current benefit arrangements, may exceed the funding available for such benefit coverage in the Supplemental Benefits Account as early as the next year or so. The board is considering actions required to ensure the cost of coverage is within the available funding.

11. COMMITMENTS

The Teachers' Pension Plan participates in the Private Placements Pools managed by bcIMC. These pools are closed-end funds consisting primarily of investments in limited partnerships. As at December 31, 2000, the Teachers' Pension Plan share of commitments (over the next several years) for investment contracts in these pools is approximately $261 million.

TEACHERS' PENSION PLAN
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12. SUBSEQUENT EVENT

Effective April 5, 2001, the Teachers' Pension Plan became governed by a new Joint Trust Agreement. The pension plan rules are made under the authority of that agreement. The agreement also describes the composition, appointment, powers, functions and duties of the trustees.

The Joint Trust Agreement sets out changes to funding policy and transitional changes that come into effect with the agreement.

Immediate changes are as follows:

- Employer contribution rates to the Basic Account are increased 1% of salaries effective June 1, 2001
- Plan member contribution rates to the Inflation Adjustment Account are increased 1% of salaries effective June 1, 2001
- The provincial government will contribute an amount equal to 1% of salaries for employer school boards for the period January 1, 2001 to June 1, 2001.

The agreement specifies a transitional period during which the rebalancing of member and employer contribution rates and specified benefit improvements will be achieved. During this transitional period, if an actuarial valuation indicates that increased basic account contribution rates are required to fully fund the plan on a going-concern basis, the increase shall be shared equally by members and employers.

Also during this period, if surplus assets or actuarial gains occur, they will be used to achieve the following objectives in the following order:

- Eliminate unfunded liability
- Rebalance member and employer contribution rates
- Provide specified benefit improvements

After the transitional objectives have been achieved, if an actuarial valuation indicates that increased basic contribution rates are required, the increase must be shared equally by members and employers. The agreement also describes the manner in which the board can elect to apply surplus assets.